



# **Portage District Library**

---

## **Financial Statements**

**Year Ended December 31, 2006**

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Portage District Library	County Kalamazoo
Fiscal Year End 12/31/06	Opinion Date April 30, 2007	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

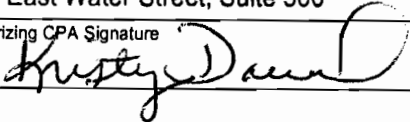
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) BDO Seidman, LLP		Telephone Number 269-382-0170	
Street Address 211 East Water Street, Suite 300		City Kalamazoo	State MI
Zip 49007			
Authorizing CPA Signature 		Printed Name Kristy A. Daniel	License Number 1101020549

March 26, 2007

Board of Directors and Management  
Portage District Library  
300 Library Lane  
Portage, Michigan 49002

Dear Board of Directors and Management:

In planning and performing our audit of the financial statements of Portage District Library (the Library), as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

During the year, we performed agreed upon procedures to identify areas of internal controls that needed improvement. Based on discussions with management, the Library is in the process of implementing our suggestions.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

During the year, the following new Statements on Auditing Standards (SAS) became/will become applicable to the Library:

The AICPA has issued eight statements commonly referred to as the Risk Assessment Standards to improve the quality and effectiveness of audits. The new standards will result in an overall increased work effort by the auditors as they require auditors to obtain a more in-depth understanding of the Library's operations and control environment and a more rigorous assessment of the risk of material misstatement of the financial statements.

The AICPA has also issued SAS No. 103, Audit Documentation, which will change the auditors' report date. Currently, our report is dated the last day of fieldwork, although it is often several weeks or more before the actual financial statements are issued. The new standard requires us to date the report when we have received verification that the financial statements have been reviewed by management. This will result in a report date that is close to the date the financial statements are issued. Delays in releasing the financial statements may require us to perform additional procedures to comply with the new standard.

SAS No. 112, Communicating Internal Control Matters, provides guidance on communicating matters identified in the audit of the financial statements. There are new terms and guidance on evaluating the severity of control deficiencies.

SAS Nos. 103 and 112 became effective for the year ended December 31, 2006, while the Risk Assessment Standards will be effective for the year ending December 31, 2007.

This communication is intended solely for the information and use of management, others within the Library, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**BDO SEIDMAN, LLP**

Certified Public Accountants

# Portage District Library

## Contents

---

<b>Library Board</b>	1
<b>Independent Auditors' Report</b>	2
<b>Management Discussion and Analysis</b>	3 - 7
<b>Government-Wide Financial Statements:</b>	
Statement of Net Assets	8
Statement of Activities	9
<b>Fund Financial Statements:</b>	
<i>Governmental Fund:</i>	
Balance Sheet	10
Reconciliation of Fund Balance of Governmental Fund to the Net Assets of Governmental Activities on the Statement of Net Assets	11
Statement of Revenues, Expenditures, and Changes in Fund Balance	12
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to Statement of Activities	13
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	14
<b>Notes to Financial Statements</b>	15 - 23
<b>Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i></b>	24 and 25

# **Portage District Library**

## **Library Board**

---

**Laurie DeHaven**  
**Chairperson**

**Babbette Smith**  
**Vice Chairperson**

**Kathy Peerbolte**

**Karen Vemuri**

**Clifford Sacks**

**Stephen Rodia**

**Timothy Wenzel**



## Independent Auditors' Report

Library Board  
Portage District Library  
Portage, Michigan

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Portage District Library (the Library), as of and for the year ended December 31, 2006, which collectively comprise the Library's basic financial statements, as listed in the accompanying table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the Library, as of December 31, 2006, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2007, on our consideration of the Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 7 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*BDO Seidman, LLP*

Certified Public Accountants

April 30, 2007

# Portage District Library

## Management Discussion and Analysis

This section of the Portage District Library's (the Library's) annual financial report presents our discussion and analysis of the Library's financial performance during the year ended December 31, 2006. Please read it in conjunction with the Library's financial statements, which immediately follow this section.

### **Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader understands the Library's finances as a whole. The *Government-Wide Financial Statements* provide information about the activities of the whole Library, presenting both an aggregate view of the Library's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending.

### ***Reporting the Library as a Whole – Government-Wide Financial Statements***

One of the most important questions asked about the Library is, "As a whole, what is the Library's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the Library's financial statements, report information on the Library as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Library's net assets--the difference between assets and liabilities, as reported in the Statement of Net Assets--as one way to measure the Library's financial health or financial position. Over time, increases or decreases in the Library's net assets, as reported in the Statement of Activities, are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Library's operating results. However, the Library's purpose is to provide library services to the residents of the district, not to generate profits as commercial entities.

The Statement of Net Assets and the Statement of Activities report the governmental activities for the Library, which encompass all of the Library's services. Property taxes finance most of these activities.

### ***Reporting the Library's Fund Financial Statements***

The Library's fund financial statements provide detailed information about the operating fund - not the Library as a whole. The Library, similar to other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The governmental fund of the Library uses the following accounting approach:



# Portage District Library

## Management Discussion and Analysis (Continued)

### *Accounting Approach*

*Governmental fund* - All of the Library's services are reported in the governmental fund. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances remaining at year-end that are available for spending. They are reported using the accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Library and the services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Library's operations. We describe the differences between governmental activities reported in the Statement of Net Assets and the Statement of Activities and governmental funds in a reconciliation.

### The Library as a Whole

Recall that the Statement of Net Assets provided a perspective of the Library as a whole. The following provides a summary of the Library's net assets as of December 31, 2006.

<i>December 31,</i>	<i>Governmental Activities</i>	
	<i>2006</i>	<i>2005</i>
<b>Assets:</b>		
Current and other assets	\$ 4,235,839	\$ 3,873,889
Capital assets, net of accumulated depreciation	3,531,743	3,631,865
<b>Total Assets</b>	<b>7,767,582</b>	<b>7,505,754</b>
<b>Liabilities:</b>		
Current liabilities	218,223	174,115
Long-term liabilities	1,822,965	1,948,187
<b>Total Liabilities</b>	<b>2,041,188</b>	<b>2,122,302</b>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	1,850,648	1,821,455
Unrestricted	3,875,746	3,561,997
<b>Total Net Assets</b>	<b>\$ 5,726,394</b>	<b>\$ 5,383,452</b>

The above analysis focuses on the net assets. The change in net assets of the Library's governmental activities is discussed below. The Library's net assets were \$5,726,394 at December 31, 2006. Capital assets, net of related debt totaling \$1,850,648, compares the original cost, less depreciation of the Library's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service becomes due. The remaining amount of net assets of \$3,875,746 was unrestricted.

# Portage District Library

## Management Discussion and Analysis (Continued)

The \$3,875,746 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The unrestricted net assets balance enables the Library to meet working capital and cash flow requirements as well as to provide for future uncertainty.

The results of this year's operations for the Library as a whole are reported in the Statement of Activities, which shows the changes in net assets for 2006 and 2005.

<b><i>Year ended December 31,</i></b>	<b><i>Governmental Activities</i></b>	
	<b><i>2006</i></b>	<b><i>2005</i></b>
<b>Revenue:</b>		
Program revenue:		
Charges for services	\$ 211,336	\$ 201,967
Other operating grants	79,155	76,453
General revenue:		
Property taxes	3,100,833	3,007,601
Interest	95,874	52,278
Other	10,225	14,651
<b>Total Revenue</b>	<b>3,497,423</b>	<b>3,352,950</b>
<b>Function/Program Expenses:</b>		
Recreation and culture	3,058,340	3,009,091
Interest and fiscal charges	96,178	102,773
<b>Total Expenses</b>	<b>3,154,518</b>	<b>3,111,864</b>
<b>Increase in Net Assets</b>	<b>\$ 342,905</b>	<b>\$ 241,086</b>

As reported in the Statement of Activities, the cost of all of the Library's activities this year was \$3,154,518. Certain activities were partially funded from those who benefited from the operations through charges for services of \$211,336 or by other governments and organizations that subsidized certain programs with grants and contributions of \$79,155. We paid for the remaining "public benefit" portion of the Library's activities with tax revenue and other revenues such as interest and state shared revenue totaling \$3,206,932.

The Library experienced an increase in net assets of \$342,905.

As discussed above, the net cost shows the financial burden placed on the state and the Library's taxpayers by each of these functions. Since property taxes constitute the vast majority of the Library's operating revenue sources, the board and management must annually evaluate the needs of the Library and balance those needs with ongoing obligations to citizens and creditors.

# **Portage District Library**

## **Management Discussion and Analysis (Continued)**

---

### **The Library's Governmental Fund**

As we noted earlier, the Library uses a fund to help it control and manage money for particular purposes. Looking at the fund helps the reader consider whether the Library is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Library's overall financial health.

As the Library completed this year, the governmental fund reported a fund balance of \$3,957,695, which is an increase of \$412,244 from last year. The primary reason for this increase is the timing of tax collections in relation to the Library's fiscal year accompanied with the increase in the amount of property taxes expected to be collected from the taxes levied in December, 2006. Furthermore, interest income was earned at a higher rate than the prior year. Encumbrances were nearly twice as much as the prior year, up from \$159,701 at December 31, 2005, to \$303,974 at December 31, 2006. This increase was due to several large projects extending over into the 2007 fiscal year. There were additional small savings in many areas that, when taken collectively, added an additional \$91,568 to the fund balance.

### **General Fund Budgetary Highlights**

Over the course of the year, the Library revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Library's original and final budget amounts compared to amounts actually paid and received is provided in the basic financial statements.

Budgeted revenues were increased by \$26,974, primarily due to donations received in excess of planned amounts.

Budgeted expenditures were increased by \$186,674, due to several factors. The main factor is for the inclusion of prior year encumbrances into the budget. The second reason is the increase of expense accounts associated with donations received.

Total actual revenues exceeded the final budget by \$258,636. This variance was due to a higher than anticipated collection of property taxes, penal fines, donation revenue, and interest income during the year.

Actual amounts of expenditures reported for recreation and culture were approximately \$408,696 under our final amended budget. This variance was due mainly to encumbrances of \$303,974 as of year-end and small savings in many areas associated with efficient purchasing of materials and services.

# Portage District Library

## Management Discussion and Analysis (Concluded)

### **Capital Assets and Debt Administration**

#### ***Capital Assets***

As of December 31, 2006, the Library had \$3,531,743 invested in capital lease assets and capital assets, including land, land improvements, building, building improvements, equipment, and furniture and fixtures. This amount represents a net decrease (including additions, disposals, and depreciation) of \$100,122 or 2.8% from last year.

<i>December 31,</i>	<i>2006</i>	<i>2005</i>
Land	\$ 30,000	\$ 30,000
Capital lease assets	4,403,994	4,403,994
Capital assets	1,338,147	1,425,220
	5,772,141	5,859,214
Less accumulated depreciation	2,240,398	2,227,349
<b>Net Capital Assets</b>	<b>\$ 3,531,743</b>	<b>\$3,631,865</b>

This year's additions of \$140,469 include seating and shelving in the adult and youth areas, the construction of a new quiet room, and various computer equipment. Additional information on the Library's capital assets can be found in Note 5 on Page 21 of this report.

#### ***Debt***

At the end of this year, the Library had \$1,681,095 in bonds outstanding versus \$1,810,410 in the previous year (a decrease of 7%). Additional information on the Library's debt can be found in Note 6 on Page 22 of this report.

### **Economic Factors and Next Year's Budgets and Rates**

The Library Board and management consider many factors when setting the Library's 2007 budget. One of the most important factors affecting the budget is the estimated amount of property tax revenue. The 2007 budget was adopted in August, 2006, based on property taxes levied in December, 2006. Approximately 90% of total General Fund revenue is from property taxes. Under state law, the Library cannot assess additional property tax revenue for general operations. As a result, the Library funding is heavily dependent on the collection of property taxes.

### **Contacting the Library's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Library's finances and to demonstrate the Library's accountability for the funds received. If you have questions about this report or need additional information, contact:

Business Office  
Portage District Library  
300 Library Lane  
Portage, Michigan 49002

# Portage District Library

## Government-Wide Financial Statements Statement of Net Assets

<i>December 31, 2006</i>	<i>Governmental Activities</i>
<b>Assets</b>	
<b>Current Assets:</b>	
Cash	\$ 76,912
Investments (Note 4)	1,839,497
Receivables - Property taxes	2,319,100
Beneficial interest (Note 8)	330
Capital assets, net of accumulated depreciation (Note 5)	3,531,743
<b>Total Assets</b>	<b>\$ 7,767,582</b>
<b>Liabilities and Net Assets</b>	
<b>Current Liabilities:</b>	
Accounts payable - Trade	\$ 164,176
Accrued wages	54,047
Noncurrent liabilities (Note 6):	
Due within one year	202,420
Due in more than one year	1,620,545
<b>Total Liabilities</b>	<b>2,041,188</b>
<b>Net Assets:</b>	
Invested in capital assets, net of related debt	1,850,648
Unrestricted	3,875,746
<b>Total Net Assets</b>	<b>5,726,394</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 7,767,582</b>

*See accompanying independent auditors' report and  
notes to financial statements.*

# Portage District Library

## Government-Wide Financial Statements Statement of Activities

		<i>Program Revenues</i>		<i>Governmental Activities</i>
<i>Year ended December 31, 2006</i>	<i>Expenses</i>	<i>Charges for Services</i>	<i>Operating Grants and Contributions</i>	<i>Net (Expense) Revenue and Changes in Net Assets</i>
<b>Function/Program -</b>				
Governmental activities:				
Recreation and culture	\$3,058,340	\$ 211,336	\$ 79,155	\$ (2,767,849)
Interest and fiscal charges	96,178	-	-	(96,178)
<b>Total Governmental Activities</b>	<b>\$3,154,518</b>	<b>\$ 211,336</b>	<b>\$ 79,155</b>	<b>(2,864,027)</b>
<b>General Revenues:</b>				
Property taxes				3,100,833
Interest				95,874
Other				10,225
<b>Total General Revenues</b>				<b>3,206,932</b>
<b>Increase in Net Assets</b>				<b>342,905</b>
<b>Change in Assets Held by the Kalamazoo Community Foundation</b>				<b>37</b>
<b>Net Assets, beginning of year</b>				<b>5,383,452</b>
<b>Net Assets, end of year</b>				<b>\$ 5,726,394</b>

*See accompanying independent auditors' report and  
notes to financial statements.*

# Portage District Library

## Governmental Fund Balance Sheet

<b>December 31, 2006</b>		<i>General Fund</i>
<b>Assets:</b>		
Cash	\$	76,912
Investments (Note 4)		1,839,497
Receivables - Property taxes		2,259,179
Beneficial interest (Note 8)		330
<b>Total Assets</b>	<b>\$</b>	<b>4,175,918</b>
<b>Liabilities and Fund Balance</b>		
<b>Liabilities:</b>		
Accounts payable - Trade	\$	164,176
Accrued wages payable		54,047
<b>Total Liabilities</b>		<b>218,223</b>
<b>Fund Balance:</b>		
Reserved:		
Encumbrances		303,974
Endowment		288
Unreserved:		
Designated:		
Building reserve		50,000
General reserve		442,216
Technology reserve		100,000
Undesignated		3,061,217
<b>Total Fund Balance</b>		<b>3,957,695</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$</b>	<b>4,175,918</b>

*See accompanying independent auditors' report and  
notes to financial statements.*

# Portage District Library

## Governmental Fund Reconciliation of Fund Balance of Governmental Fund to the Net Assets of Governmental Activities on Statement of Net Assets

*December 31, 2006*

Fund balance - Governmental Fund (from Page 10) \$ 3,957,695

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund. These assets consist of:

Capital assets, at cost	5,772,141
Accumulated depreciation	<u>2,240,398</u>

Net capital assets 3,531,743

Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the fund. These assets consist of -

Property taxes receivable	59,921
---------------------------	--------

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the fund.

Balances are as follows:

Bonds payable	(1,681,095)
Compensated absences	<u>(141,870)</u>

**Net Assets of Governmental Activities \$ 5,726,394**

*See accompanying independent auditors' report and  
notes to financial statements.*



# Portage District Library

## Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance

<i>Year ended December 31, 2006</i>		<i>General Fund</i>
<b>Revenues:</b>		
Taxes		\$ 3,195,236
State aid		35,853
Other		360,737
<b>Total Revenues</b>		<b>3,591,826</b>
<b>Expenditures:</b>		
Current -		
Recreation and culture		2,760,457
Debt service:		
Principal payments		129,315
Interest and other		96,178
Capital outlay		193,669
<b>Total Expenditures</b>		<b>3,179,619</b>
<b>Increase in Fund Balance</b>		<b>412,207</b>
<b>Change in Assets Held by the Kalamazoo Community Foundation</b>		<b>37</b>
<b>Fund Balance, beginning of year</b>		<b>3,545,451</b>
<b>Fund Balance, end of year</b>		<b>\$ 3,957,695</b>

*See accompanying independent auditors' report and  
notes to financial statements.*

# Portage District Library

## Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to Statement of Activities

*Year ended December 31, 2006*

Net change in fund balance - Governmental Fund (from Page 12) \$ 412,244

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation expense:

Capital outlay	140,469	
Depreciation expense	(239,902)	
Loss on disposal of fixed assets	<u>(689)</u>	(100,122)

Revenue in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund -

Property taxes receivable	(94,402)
---------------------------	----------

Repayment of expenses such as bond and note principal and compensated absences are an expenditure in the governmental fund, but not in the Statement of Activities.

125,222

**Change in Net Assets of Governmental Activities \$ 342,942**

*See accompanying independent auditors' report and  
notes to financial statements.*

# Portage District Library

## General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

<i>Year ended December 31, 2006</i>	<i>Original Budget</i>	<i>Final Budget</i>	<i>Actual</i>	<i>Variance with Final Budget Positive (Negative)</i>
<b>Revenues:</b>				
Taxes	\$ 3,059,502	\$3,059,502	\$ 3,195,236	\$ 135,734
State Aid	38,964	38,964	35,853	(3,111)
Other	207,750	234,724	360,737	126,013
<b>Total Revenues</b>	<b>3,306,216</b>	<b>3,333,190</b>	<b>3,591,826</b>	<b>258,636</b>
<b>Expenditures:</b>				
Recreation and culture:				
Salaries and wages	1,165,195	1,184,945	1,181,850	3,095
Fringe benefits	502,845	483,095	477,841	5,254
Library materials	433,994	484,553	385,517	99,036
Capital outlay	291,963	338,646	193,669	144,977
Professional services	224,235	263,331	219,273	44,058
Building maintenance	142,460	143,718	134,567	9,151
Supplies	121,596	131,915	108,008	23,907
Utilities	105,000	106,500	95,983	10,517
Other charges	188,882	226,119	157,418	68,701
Total recreation and culture	3,176,170	3,362,822	2,954,126	408,696
Debt service:				
Principal payments	129,315	129,315	129,315	-
Interest and other	96,178	96,200	96,178	22
Total debt service	225,493	225,515	225,493	22
<b>Total Expenditures</b>	<b>3,401,663</b>	<b>3,588,337</b>	<b>3,179,619</b>	<b>408,718</b>
<b>Increase (Decrease) in Fund Balance</b>	<b>(95,447)</b>	<b>(255,147)</b>	<b>412,207</b>	<b>667,354</b>
<b>Change in Assets Held by the Kalamazoo Community Foundation</b>	<b>-</b>	<b>-</b>	<b>37</b>	<b>37</b>
<b>Fund Balance, beginning of year</b>	<b>3,545,451</b>	<b>3,545,451</b>	<b>3,545,451</b>	<b>-</b>
<b>Fund Balance, end of year</b>	<b>\$ 3,450,004</b>	<b>\$3,290,304</b>	<b>\$ 3,957,695</b>	<b>\$ 667,391</b>

See accompanying independent auditors' report and  
notes to financial statements.

# Portage District Library

## Notes to Financial Statements

---

### 1. Description of the Portage District Library

Effective March 22, 1998, the Portage District Library (the Library) was established pursuant to Act No. 24 of the Public Acts of 1989. Its purpose is to provide library services to the residents of the district. The Library may also enter into contracts to provide library services to municipalities outside the district. The Library is governed by a Library Board consisting of seven members who are elected by the citizens according to geographic regions.

### 2. Summary of Significant Accounting Policies

The financial statements of the Library have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Library's significant accounting policies are described below.

#### **Reporting Entity**

The Library is an independent entity with an elected board of directors. The board consists of seven members elected to four-year terms. The board has responsibility and control over all matters affecting the Library, including authority to determine its budget, the power to designate management and primary accountability for fiscal matters. The financial statements of the Library contain all activity for which the Library is financially accountable.

#### **Basis of Presentation**

*Government-wide financial statements:* The Statement of Net Assets and the Statement of Activities report information on all of the activities of the Library. The government-wide financial statements categorize activities as either governmental or business-type. All of the Library's activities are classified as governmental.

The Statement of Activities demonstrates the degree to which the direct expenses related to a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to recipients who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function. Property taxes and other items not included among program revenues are reported as general revenues.

*Fund financial statements* - The fund financial statements provide information about the Library's governmental fund.

# Portage District Library

## Notes to Financial Statements (Continued)

---

The governmental fund is used to account for the Library's general activity. The focus is on determination of the financial position and changes in financial position rather than on income determination. The following is a description of the governmental fund of the Library.

*General Fund* - The General Fund is the general operating fund of the Library. It is used to account for all financial resources.

### **Measurement Focus and Basis of Accounting**

**Government-wide Financial Statements** - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Fund Financial Statements** - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available if they are collected within the current period or soon enough after to pay liabilities for the current period. The Library considers revenues available if collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences, are recorded only when payment is due.

### **Budgets and Budgetary Accounting**

Budgets presented in the financial statements were prepared on the same basis as the accounting basis used to reflect actual results. The General Fund is subject to legal budgetary accounting controls and is budgeted annually. The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to May 31, department coordinators submit a prioritized expenditure budget report for the fiscal year commencing the following January 1.
- During June and July, the director and business manager develop an operating budget based upon the proposed expenditures and projected revenues for submission to the Library Board in July.
- Library Board work sessions are held in August.
- Public hearings are conducted by the Library Board during the September Library Board meeting and the final budget is adopted in September.

# Portage District Library

## Notes to Financial Statements (Continued)

- Formal budgetary integration is employed as a management control device during the year for the General Fund.
- The budget is adopted on a modified accrual basis consistent with accounting principles generally accepted in the United States of America.
- Budgeted amounts are as originally adopted or as amended by the Library Board during the calendar year. Individual amendments were not material in relation to the original appropriations and were made as permitted by law.

### Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental fund. Encumbrances outstanding at year-end are reported as reservations of fund balance since they do not constitute expenditures or liabilities.

### Assets, Liabilities, and Net Assets

**Cash and Investments** - Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less. Investments are stated at fair value.

**Capital Assets** - Capital assets, which include property, building, and equipment, are reported in the government-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$3,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated fixed assets are recorded at their fair value on the date donated.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets useful lives are not capitalized. Major outlays for capital assets are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets are included as part of the capitalized value.

Depreciation is provided for on the straight-line basis over the estimated useful lives of the assets as follows:

Building and additions	10 - 40 Years
Equipment	5 - 10 Years
Furniture and fixtures	5 - 10 Years

**Long-Term Obligations** - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities.

# Portage District Library

## Notes to Financial Statements (Continued)

---

In the fund financial statements, governmental fund types recognize bond premiums and discounts as well as issuance costs during the current period. The face amount of debt is reported as other financing sources. Premiums and discounts are reported as other financing sources (uses) while issuance costs are reported as expenditures.

**Compensated Absences** – Library employees are granted vacation and sick leave in varying amounts based on length of service. Sick leave is 50% vested for employees with 10 or more years of service. Effective January 1, 2001, employees were given the option to participate in a short-term disability plan; therefore, new employees are not eligible to accrue sick hours, only the employees which were vested have the option to continue to accrue sick hours. All vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**Net Assets** - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition or construction of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through legislation or through external restrictions imposed by creditors, grantors, laws, or regulations from other governments.

**Property Taxes** - Property taxes are levied on December 1 at all local units at which time the taxes attach as an enforceable lien on the property. The taxes are due February 28 of each year. The Library's portion of the 2006 taxes are collected by the local units and remitted to the Library when it is received. The Library's portion of the 2006 property tax levy, which was based on the rate of 1.49 mills, applied to a total taxable value of real and personal property located in the Library district of \$2,144,332,042 is subject to change due to review and tax tribunal decisions.

**Use of Estimates** - The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

### 3. Stewardship, Compliance, and Accountability

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund. All annual appropriations lapse at year-end.

The budget document presents information by function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Library to have its budget in place by January 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits the Library to amend their budget during the year. Expenditures did not exceed budgeted appropriations.

# Portage District Library

## Notes to Financial Statements (Continued)

### 4. Deposits and Investments

#### *Deposits*

State statutes require that certificates of deposit, savings accounts, deposit accounts, and depository receipts are made with banks doing and having a place of business in the state of Michigan that are also insured by an agency of the United States.

The Library's investment policy complies with the State statutes and has no additional limitations on deposits.

#### *Custodial Credit Risk - Deposits*

Custodial credit risk is the risk that, in the event of bank failure, the Library's deposits might not be recovered. The Library does not have a policy for mitigating custodial credit risk over deposits. At December 31, 2006, none of the Library's bank balances of \$83,799 were exposed to custodial credit risk.

#### *Investments*

State statutes authorize the Library to invest surplus funds in obligations or repurchase agreements of the United States or an agency of the United States, commercial paper, banker's acceptances of the United States banks, obligations of the state of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments.

The Library's investment policy complies with the State statutes and has no additional restrictions that would limit its investment choices.

As of December 31, 2006, the Library had the following investments and maturities:

<i>Investment Type</i>	<i>Fair Value</i>	<i>Investment Maturities Less than One Year</i>
Institutional Trust Account	\$ 1,839,497	\$ 1,839,497

The Institutional Trust Account is a mutual fund comprised of United States Treasury Securities. These accounts are highly liquid and the Library receives daily interest, compounded monthly, on the principal in these accounts.



# Portage District Library

## Notes to Financial Statements (Continued)

---

### *Interest Rate Risk - Investments*

Under State statutes, investment in commercial paper is limited to maturities of not more than 270 days after the date of purchase. The Library's investment policy complies with the State guidelines and seeks to minimize interest rate risk by investing primarily in short-term securities, liquid assets, money market funds or similar investment pools and limiting average maturities. The policy does not place specific limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Because the Institutional Trust Account has a weighted average maturity of approximately 30 days as of December 31, 2006, it is presented as an investment with maturity of less than one year.

### *Credit Risk - Investments*

State statutes limit investments in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services. Investments in obligations of the State of Michigan or its political subdivisions must be rated as investment grade by not less than one rating service. Investments in bonds, obligations, or repurchase agreements must be made with the U.S. Treasury and bankers acceptances with U.S. banks. Mutual Funds must be comprised of the above investments.

The Library's investment policy requires investments to be made with prudent judgment as to the safety of the invested capital and probable outcome of income.

At December 31, 2006, the Institutional Trust Account has a rating of AAA by Standard & Poor's.

# Portage District Library

## Notes to Financial Statements (Continued)

### 5. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

	<i>Balance January 1, 2006</i>	<i>Additions</i>	<i>Disposals</i>	<i>Balance December 31, 2006</i>
<b>Capital Lease Assets Not Depreciated -</b>				
Land	\$ 30,000	\$ -	\$ -	\$ 30,000
<b>Capital Lease Assets Depreciated:</b>				
Building	4,047,614	-	-	4,047,614
Building improvements	270,906	-	-	270,906
Land improvements	85,474	-	-	85,474
<b>Total Capital Lease Assets at Historical Cost</b>	<b>4,433,994</b>	<b>-</b>	<b>-</b>	<b>4,433,994</b>
<b>Capital Assets Depreciated:</b>				
Equipment	669,745	11,900	(213,988)	467,657
Building improvements	345,364	18,940	-	364,304
Furniture and fixtures	398,891	109,629	(13,554)	494,966
Land improvements	11,220	-	-	11,220
<b>Total Capital Lease Assets and Capital Assets at Historical Cost</b>	<b>5,859,214</b>	<b>140,469</b>	<b>(227,542)</b>	<b>5,772,141</b>
Less accumulated depreciation:				
Building	1,221,795	109,316	-	1,331,111
Land and building improvements	111,012	35,567	-	146,579
Equipment	545,809	63,000	(213,299)	395,510
Furniture and fixtures	348,733	32,019	(13,554)	367,198
<b>Total accumulated depreciation</b>	<b>2,227,349</b>	<b>239,902</b>	<b>(226,853)</b>	<b>2,240,398</b>
<b>Net Capital Lease Assets and Capital Assets</b>	<b>\$ 3,631,865</b>	<b>\$ (99,433)</b>	<b>\$ (689)</b>	<b>\$ 3,531,743</b>

Depreciation expense was charged to governmental functions as follows -

Recreation and culture	\$ 239,902
------------------------	------------

# Portage District Library

## Notes to Financial Statements (Continued)

### 6. Long-Term Obligations

Changes in long-term liabilities were as follows:

<i>Primary Government</i>	<i>Beginning Balance January 1, 2006</i>	<i>Additions</i>	<i>Reductions</i>	<i>Ending Balance December 31, 2006</i>	<i>Due Within One Year</i>
<b>Governmental Activities:</b>					
Bonds payable -					
General obligation debt	\$ 1,810,410	\$ -	\$ (129,315)	\$ 1,681,095	\$ 172,420
Other liabilities -					
Compensated absences	137,777	106,567	(102,474)	141,870	30,000
<b>Total Long-Term Liabilities - Governmental Activities</b>	<b>\$ 1,948,187</b>	<b>\$ 106,567</b>	<b>\$ (231,789)</b>	<b>\$ 1,822,965</b>	<b>\$ 202,420</b>

Long-term debt consists of building authority bonds used for renovation of the Library. The bonds were issued while the Library was still part of the City of Portage. Therefore, the bonds are in the City of Portage's name. The Library makes annual principal payments and semi-annual interest payments directly to the City of Portage for the Library's portion of the debt. There are no liens against the Library due to the bonds being in the City of Portage's name.

The bonds were originally issued for \$3,300,000, of which 86.21% is the Library's portion, or \$2,844,930. The bonds are dated June 1, 1995, with annual payments of \$129,315 to \$258,530 through July 1, 2015, and interest at 4.30% to 5.60%.

The annual requirements to pay principal and interest on long-term bonds outstanding for the Library are as follows:

<i>Year ending December 31,</i>	<i>Governmental Activities</i>		<i>Total</i>
	<i>Principal</i>	<i>Interest</i>	
2007	\$ 172,420	\$ 92,848	\$ 265,268
2008	172,420	83,710	256,130
2009	172,420	74,485	246,905
2010	172,420	65,089	237,509
2011	172,420	55,519	227,939
2012-2016	818,995	123,108	942,103
	<b>\$ 1,681,095</b>	<b>\$ 494,759</b>	<b>\$ 2,175,854</b>

# Portage District Library

## Notes to Financial Statements (Concluded)

---

### 7. Retirement Plan

#### Plan Description

The Portage District Library contributes to a Money Purchase Plan and Trust for all full-time employees. Plan participants are not required to contribute, but may contribute if they choose to do so. Plan provision and contribution requirements are established and may be amended by the Library Board. The Library is required to contribute 10% of annual covered payroll. During the year ended December 31, 2006, the Library contributed approximately \$103,000 to the plan.

### 8. Beneficial Interest

Generally accepted accounting principles (GAAP) established standards for transactions in which a community foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both to another entity that is specified by the donor. GAAP specifically requires if a not-for-profit organization establishes a fund at a community foundation with its own funds and is specified as the beneficiary of that fund, the organization must account for the transfer of such assets as a beneficial interest in funds held by the community foundation. The community foundation refers to such funds as agency fund endowments.

The Library previously transferred funds to the Kalamazoo Community Foundation to be held in endowment. The Kalamazoo Community Foundation maintains variance powers and legal ownership over a portion of the Library's endowment funds and as such, continues to report those funds as assets of the Kalamazoo Community Foundation. This balance was \$32,779 at December 31, 2006. In accordance with GAAP, the Portage District Library has recorded an asset for the beneficial interest in funds held by the Kalamazoo Community Foundation of \$330.

### 9. Health Reimbursement Account

The Library has established a Health Reimbursement Arrangement for its employees for the purpose of reimbursing eligible employees of the Library for the cost of certain eligible medical expenses.

### 10. Risk Management and Benefits

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees and natural disasters. In order to minimize its exposure to these risks, the Library purchases commercial insurance coverage. Employee health insurance is also provided by private insurance carriers. There have been no settlements in excess of the Library's insurance coverage.



**BDO Seidman, LLP**  
Accountants and Consultants

211 East Water Street, Suite 300  
Kalamazoo, Michigan 49007  
Telephone: (269) 382-0170  
Fax: (269) 345-1666

## **Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

Library Board  
Portage District Library  
Portage, Michigan

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Portage District Library (the Library), as of and for the year ended December 31, 2006, which collectively comprise the Library's basic financial statements and have issued our report thereon dated April 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Library's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Library's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Library's financial statement that is more than inconsequential will not be prevented or detected by the Library's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Library's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



**BDO Seidman, LLP**  
Accountants and Consultants

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

We noted certain matters that we reported to management of the Library in a separate letter dated April 30, 2007.

This report is intended solely for the information and use of the board and management, and others within the Library, and is not intended to be and should not be used by anyone other than these specified parties.

*BDO Seidman, LLP*

Certified Public Accountants

April 30, 2007